

SOUTHERN DIVISION

RULE 11(f) FACTUAL BASIS FOR GUILTY PLEA

HealthSouth

3. Since in or about 1986, when it made its Initial Public Offering (IPO), *HealthSouth* has been an issuer of a class of securities registered under Section 12 of the Securities Exchange Act of 1934, required to file quarterly and annual statements (Forms 10-Q and Forms 10K) under said Act with the Securities Exchange Commission (“SEC”). These

statements reported *HealthSouth's* earnings, as well as the value of its assets and liabilities. These reports were available to the public, which used them to determine whether *HealthSouth* met the aforesaid expectations.

4. Under provisions of the federal securities laws and the regulations promulgated thereunder, *HealthSouth* was also required to make and keep books, records, and accounts that accurately and fairly reflected the transactions and dispositions of the company's assets; and to devise and maintain a system of internal accounting controls sufficient to provide – (i) reasonable assurances that the company's transactions were recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles (“GAAP”) and other criteria applicable to such statements and to maintain the accountability of assets; and (ii) reasonable assurances that the recorded accountability for assets was compared with the existing assets at reasonable intervals and appropriate action was taken with respect to any differences.

The Conspiracy.

5. Beginning before 1994, the then CEO and Senior Officers at *HealthSouth* conspired to inflate the financial statements filed with the SEC, at least some of which were electronically transmitted from the Northern District of Alabama to Washington, D.C., to defraud investors and *HealthSouth*, and to make false entries in *HealthSouth's* books, records, and accounts.

6. *HealthSouth's* then CEO and other Senior Officers reviewed monthly and quarterly preliminary reports showing *HealthSouth's* true and actual financial results, which usually showed that *HealthSouth* had not met earnings per share expectations. These Senior Officers would then direct that *HealthSouth's* accounting staff to manipulate *HealthSouth's* books, accounts and records to ensure that *HealthSouth's* earnings per share number met or exceeded those expectations.

7. Methods to increase earnings included making entries to reduced offsets against revenues or to reduce expenses. Corresponding fraudulent entries were made to increase assets and decrease liabilities on *HealthSouth's* Balance Sheet. Such entries were made in, among other accounts, *HealthSouth's* (1) Property, Plant and Equipment (“PP&E”) accounts; (2) cash

accounts; (3) inventory accounts; and (4) intangible asset (goodwill) accounts.

8. These entries caused the quarterly and annual financial statements filed with the SEC for the years from before 1994 through 2002, that is, Forms 10-Q and Forms 10K, to be materially false. The cumulative inflations summed to billions of dollars. Some of these statements were transmitted electronically from Birmingham, Alabama to Washington, D.C., to be filed with the SEC.

9. The then CEO and other conspirators benefitted from the conspiracy by receiving salaries, bonuses, and an increased value in their stock and stock options. The investing public suffered to the extent they paid for shares whose value was inflated by the aforesaid conspiracy.

The Defendant

10. Defendant Martin began working for *HealthSouth* as Vice President and Treasurer in 1989 after having worked in the banking industry as a commercial lender for several years. In or about October 1997, Martin became *HealthSouth's* CFO, a position he held until he left *HealthSouth* in March 2000.

11. Martin became aware that the company was not meeting earnings projections in at least 1994. After Martin became CFO in 1997, he began reviewing quarterly preliminary income statements showing *HealthSouth's* true and accurate financial results, which showed that *HealthSouth* was not meeting earnings per share projections. When earnings did not meet the then CEO's projections, the then CEO would instruct Martin and another Senior Officer to fix the books and records of *HealthSouth* so that they would reflect the then CEO's earnings per share projections. Martin had repeated discussions with the then CEO regarding the fact that the income statements being provided to the SEC and investing public did not accurately reflect the true revenue of *HealthSouth*.

12. Martin periodically attended meetings with members of the accounting department where discussions were held regarding how the financial statements could be altered to meet the then CEO's earnings per share projections.

13. As the CFO of *HealthSouth*, Martin signed *HealthSouth's* Forms 10-Q and 10-K beginning with the 10-K for 1997 and continuing through the 10-Q for the third quarter of 1999 knowing that the financial statements attached to the forms did not fairly present, in all material

respects, the financial condition and results of operations at *HealthSouth*. These documents were also signed by the then CEO.

14. On or about November 15, 1999, *HealthSouth's* 10-Q for the third quarter of 1999 was transmitted by wire in interstate commerce from Birmingham, Alabama, to Washington, D.C., for filing with the SEC.

15. This document does not set forth the complete and full extent of defendant **MARTIN'S** knowledge about criminal activity at *HealthSouth*, but is intended only to provide a factual basis for his guilty plea to an Information filed against him by the United States.

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